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TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *J. Tyler McCauley*
Auditor-Controller

SUBJECT: **SHERIFF'S DEPARTMENT FOLLOW-UP REVIEW**

At the Audit Committee's request, we have followed up on our two 1997 Fiscal Audit reports and the 1997 KPMG Management Audit of the Sheriff's Department (Sheriff). Our follow-up review was intended to assess the Sheriff's progress in implementing 34 recommendations from the prior reports in key areas including budget, procurement, revenue billing and collection, payroll, and management.

In April 2002, your Board asked us to review the Sheriff's contract processing/monitoring. Because that request relates to seven contracting recommendations from our prior audits, we will include the status of those recommendations in our report on the Sheriff's contract processing/monitoring.

Fiscal Audit Recommendations

We found that the Sheriff has implemented only six out of the 26 Fiscal Audit recommendations reviewed. As a result, significant departures from County policies and required internal controls continue to exist. The following are examples of the problem areas and the results of non-compliance.

Collections

The Sheriff has improved the collection process for contract city billings. However, it is not requiring the cities to pay the late payment penalties required by the contracts. This has resulted in the loss of approximately \$900,000 for this fiscal year (FY).

The Sheriff plans to start requiring up-front deposits for security services provided to private parties in July 2002. However, the Sheriff only plans on requiring deposits from film companies and not other parties. Deposits help ensure charges are collected.

Payroll

We noted various issues/problems continue to exist in the Sheriff's payroll operations.

- A relatively large number of staff continue to work large amounts of overtime. In FY 2000-01, ten sergeants earned over \$50,000 in overtime, compared to none in FY 1997-98. In addition, we estimate that over 700 employees will work in excess of 650 hours of overtime this fiscal year. While these instances do not represent violations of County or Sheriff rules, they do indicate the continuing need to monitor and take action to reduce overtime.
- Overtime is sometimes not pre-approved as required. This may contribute to the Sheriff's Department exceeding their budgeted overtime. The Sheriff has exceeded their budget for overtime in three of the last four fiscal years. The amount of excess overtime has ranged from \$15 million to \$44 million a year.
- Work schedule rules have been made more lenient rather than strengthened. For example, the Sheriff increased the number of consecutive days that can be worked from 10 to 12 and increased the number of hours an employee can work in excess of their regular shift.
- The Department still does not utilize timecards as other County departments do. This results in inefficient payroll processing and increases the risk of error.
- Overpayments related to workers' compensation continue to occur. We tested ten workers' compensation cases and noted that four had overpayments totaling \$5,969.

Procurement

The Department is still not always complying with County procurement requirements.

- The Sheriff made 105 purchases over \$5,000 without the required ISD approval. It appears that some purchases were split to stay within purchasing limitations.
- Payments were made without documentation that the goods were received. In the case of one payment voucher with 13 invoices, one invoice was paid without proof the goods/services were received. For the other 12 invoices, the amounts paid exceeded the amounts on the receiving documents.

- Personnel were performing incompatible functions. For example, in three instances, the same employee ordered and received the goods. This lack of controls can result in inappropriate purchases/payments.

Fiscal Review Summary

Many of the problems that existed in 1997 have not been corrected. The Sheriff's Department needs to place a higher priority on implementing prior recommendations in order to bring its fiscal operations into compliance with County policies and procedures. Our findings indicate opportunities to increase revenue and control overtime. The non-compliance in procurement indicates that the Sheriff needs to take action to ensure appropriate oversight and accountability, including processing purchases through ISD when required, competitive bidding to minimize cost and internal controls to reduce the risk of purchasing irregularities.

KPMG Management Audit

We reviewed eight of the 38 recommendations from the 1997 KPMG Management Audit and noted that, for the most part, the Sheriff had addressed, or is in the process of addressing, the recommendations. The most significant audit finding was the civilianization of sworn positions. The Sheriff has reclassified numerous sworn positions and filled them with civilian employees.

Details of the results of our review are included in Attachment I to this report. We discussed the results of our review with Sheriff management. Their response (Attachment II) indicates general agreement with the results of our review, and that the Sheriff will develop plans to address the partially implemented recommendations.

If you have any questions regarding this report, please contact me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:JS
Attachment

c: David E. Janssen, Chief Administrative Office
Leroy D. Baca, Sheriff
Joan Ouderkirk, Director, ISD
Violet Varona-Lukens, Executive Officer
Public Information Officer
Audit Committee

**SHERIFF'S DEPARTMENT
FOLLOW-UP REVIEW OF AUDIT RECOMMENDATION STATUS**

Budget

Recommendation 3 April 15, 1997 Interim Report

The Sheriff and Chief Administrative Office (CAO) re-evaluate the individual components of the department's budget to ensure that individually they represent the best estimate of expected results based upon past experience and current operating trends.

Current Status: PARTIALLY IMPLEMENTED

In our initial report, we noted that the Sheriff consistently under-spent its Services and Supplies (S&S) budget and over-spent its Salaries and Employee Benefits (S&EB) budget. Our follow-up disclosed that the Sheriff is still having difficulty operating within its total budget and continues to have difficulty staying within the individual elements of the budget. Specifically, the Sheriff continues to over-spend on S&EB and under-spend on S&S. For a more detailed report on the Sheriff's budget performance, see our report on the Sheriff's Budget Performance and Salary Savings dated June 4, 2002.

The Sheriff indicated that they have revised their fiscal year (FY) 2002-03 budget to better reflect the past experience and current trends of individual components of the Department's budget.

Revenue Billing and Collection

Recommendation 7 April 15, 1997 Interim Report

The Sheriff institute more aggressive revenue collection procedures for contract cities.

Current Status: PARTIALLY IMPLEMENTED

Our follow-up disclosed that the Sheriff has reduced its contract city delinquent accounts receivable 90 days past due from \$2.4 million at the time of initial review down to \$90,000. The Sheriff also reduced delinquent contract city receivables from prior years from \$431,000 in 1997 to \$87,000. We also noted that the Sheriff currently sends delinquent notices to city managers/administrators when accounts become delinquent, and second delinquent notices directly to mayors for accounts that have been delinquent for 30 days.

While the Sheriff has improved collection procedures for contract cities, we noted that the Department does not require the cities to pay the 10% penalty for late payment specified in the contracts with the cities. Based on late payments received for services provided to contract cities from July 1, 2001 to October 31, 2001, we estimate that the Sheriff's practice of not enforcing the late payment penalty resulted in a loss of approximately \$900,000 in revenue for fiscal year 2001-02.

In addition, we reviewed six delinquent receivables for miscellaneous services (e.g., special events, aero services, etc.) provided to one contract city and noted that the Sheriff did not document its follow-up collection efforts. In addition, the Sheriff did not document their follow-up efforts on two of out ten contract city invoices we reviewed for patrol services.

We also noted that the Department does not print the due date on their invoices and delinquent notices. This may delay collection of receivables. In addition, the Sheriff's billing process is not fully automated. Currently, an accountant enters the invoice information into a spreadsheet and must manually update the file to identify delinquent invoices. The Sheriff indicated that they are implementing a new system to improve invoice processing.

While the Sheriff has improved the billing for contract law enforcement services, the Sheriff still needs to improve its billing and collection for miscellaneous services and late payment penalties.

Recommendations 10, 11 and 12 April 15, 1997 Interim Report

The Sheriff and Department of Health Services (DHS) modify their procedures so that Sheriff revenue personnel directly provide information to DHS revenue personnel regarding State inmates receiving care at the LAC + USC jail ward.

The Sheriff and DHS work together to identify prior unbilled charges and bill the State.

The Sheriff and DHS determine the legality of billing cities for services provided to city inmates and charge the cities, if appropriate.

Current Status of Recommendations 10, 11 and 12: IMPLEMENTED

Some Sheriff inmates receive medical care at the LAC+USC Medical Center jail ward. DHS bills the State for the cost of medical care to State responsible inmates. In our initial report, we noted that the Sheriff did not always notify DHS of State responsible inmates. This resulted in unbilled medical services to the State. We also noted that the Sheriff and DHS did not bill cities for security and medical services for inmates held in the LAC+USC jail ward.

The Sheriff indicated that, pursuant to California Government Code Section 36903, counties may bill cities for prisoner maintenance, including medical services, if the prisoners are held on a municipal ordinance violation. We noted that the Sheriff now bills cities, when appropriate, and provides DHS with monthly reports identifying all billable State and city inmate charges. In addition, we noted that the Sheriff provided DHS with reports identifying billable State inmates for FY 1994-95 through FY 1996-97 and that DHS followed-up on and collected \$2.2 million in outstanding State inmate charges for the same period.

Recommendation 13 April 15, 1997 Interim Report

The Sheriff, whenever possible, require up-front payment of charges and for those services for which the charge is not yet known, up-front deposits of estimated charges.

Current Status: PARTIALLY IMPLEMENTED

The Sheriff's delinquent accounts come primarily from miscellaneous services (e.g., film security, special event security, etc.) provided to private firms and public entities that do not have a full-time patrol contract with the Sheriff. Some of these accounts become unpaid because the film companies dissolve before paying their bills for Sheriff services. To reduce these losses, the Sheriff should collect up-front fees from private entities whenever possible.

At the time of our follow-up review, the Department was not requiring up-front deposits. However, on June 3, 2002, the Administrative Services Division issued a memo to the Department's Filming Coordinator and the Financial Programs Captain requiring "good faith" deposits from film companies effective July 1, 2002. While this policy addresses the intent of our recommendation, it only deals with film companies and does not require up-front deposits from other private entities.

Recommendation 14 April 15, 1997 Interim Report

The Sheriff discontinue providing services to the entities/individuals who have delinquent accounts.

Current Status: NOT IMPLEMENTED

In our initial report, we noted that Sheriff continued to provide non-patrol services to delinquent private entity customers.

In our follow-up, we noted that the Sheriff continued to provide services to 13 private entity accounts who had delinquent accounts as of February 28, 2002 totaling approximately \$54,000. We also reviewed the Department's list of billing statuses for public entities as of January 31, 2002 and noted that the Sheriff continued to provide

non-patrol services to 10 delinquent public entities that do not have full-time patrol contracts.

Requiring up-front deposits as noted above should reduce the number of delinquent accounts and minimize the need to discontinue services. In addition, the Sheriff indicated that as a result of our follow-up, they are developing procedures to notify station personnel of the delinquent entities for which services should be discontinued.

Recommendation 15 April 15, 1997 Interim Report

The Sheriff establish a goal of billing for all services within 30 days of providing services and monitor for compliance.

Current Status: PARTIALLY IMPLEMENTED

In our initial audit, we noted that the Sheriff did not bill timely for services. Since our review, the Sheriff developed a report to track the status of billing and collection of services it provides to private entities. However, they do not effectively use the report to ensure timely billing. In addition, the Sheriff does not monitor billing timeliness for public entities.

To determine whether the Sheriff had improved the timeliness of billing, we reviewed a list of all outstanding private entity billings as of February 28, 2002, and noted that 19 of 367 (5%) were not billed within 30 days. The invoices were billed an average of six days late. We also judgmentally selected a sample of 30 public entity invoices for services provided between July 1, 2001 and November 2001 and noted that 7 of 30 (23%) were not billed within 30 days. The seven late invoices were billed an average of 11 days late.

Although the Department has developed tracking mechanisms, the results of our test work indicate that further improvements are necessary.

Recommendation 16 April 15, 1997 Interim Report

The Sheriff establish criteria for determining uncollectible accounts.

Current Status: NOT IMPLEMENTED

The Sheriff indicated that it currently utilizes the County Fiscal Manual (CFM) as its criteria for determining uncollectible accounts and write-offs. However, we noted that the Department is not following the CFM requirements for handling delinquent accounts.

The CFM requires that departments make three attempts to contact the debtor within 45 days, and refer accounts delinquent over 60 days to the County Treasurer and Tax Collector (TTC). We reviewed ten private entity accounts that had been delinquent for more than 90 days and noted that none were referred to the TTC as required. We also

reviewed the 17 accounts referred to the TTC on November 26, 2001 and noted that the accounts were delinquent an average of 208 days at the time of referral. We also noted that the Department does not make the required number of contacts before referring the accounts to the TTC.

In addition, we received conflicting information from staff and management regarding the Department's procedures for processing and writing-off uncollectible accounts. To ensure that the Department processes uncollectible accounts in accordance with management's expectations and the CFM, the Department should establish criteria, and procedures, for determining uncollectible accounts and referring them to the TTC.

Recommendation 17 April 15, 1997 Interim Report

The Sheriff perform an annual review of accounts receivable and write off uncollectible accounts.

Current Status: PARTIALLY IMPLEMENTED

Our follow-up review indicated that the Sheriff had reduced its delinquent accounts for private entities for services provided in prior years from \$455,000 down to approximately \$38,000. This reduction in delinquent private entity invoices indicates that the Sheriff has improved its year-end write off efforts. However, the Department does not adequately document the write-off process.

Revenue management indicated that at the end of the fiscal year, the billing section supervisors review the accounts receivable ledger and determine which accounts are uncollectible. The supervisors then e-mail the Department's Data Systems Bureau with a list of accounts that should be removed from the Department's financial system. However, payment documents for accounts that are written off are maintained in the same files as all other payment documents for the accounts, and the Department could not provide the e-mail list of the accounts written off. Therefore, we could not verify which accounts were written off or whether it was appropriate to write off the accounts.

Payroll**Recommendation 1 July 7, 1997 Final Phase Report**

The Department implement stricter overtime controls and centrally monitor compliance.

Current Status: PARTIALLY IMPLEMENTED

In our initial report, we noted that most of the overtime approval and monitoring was delegated to lower level management, with limited central monitoring. As a result, we previously noted that a significant number of Sheriff personnel worked large amounts of overtime.

Our follow-up discussions with management and review of payroll procedures indicate that unit commanders must approve all overtime and supervisors must pre-approve the overtime. In addition, the Sheriff summarizes and discusses overtime usage during a weekly meeting with the Division Chiefs. In January 2002, the Department also assembled a group to further review overtime at various units/divisions and provide recommendations for reducing overtime costs.

However, it appears that additional efforts are needed. We generated a listing of overtime earnings for Sheriff's employees and noted:

- Ten sergeants earned over \$50,000 in overtime in FY 2000-01, compared with none in FY 1997-98. In addition, based on overtime worked from July 1, 2001 to December 31, 2001, it appears that 13 sergeants will earn over \$50,000 in overtime in FY 2001-02.
- Based on a straight-line projection, it appears that over 700 employees will work over 650 hours of overtime in FY 2001-02 compared to 346 staff in FY 1997-98. This represents a 102% increase. Six-hundred fifty hours equals approximately four months of full-time work.

While not policy violations, the above examples suggest the Department should more closely monitor overtime. In addition, management should ensure overtime is approved. Specifically, we selected 25 high overtime earners from four pay locations, and noted that:

- Three overtime earners had overtime slips that were approved with a signature stamp rather than being signed.
- Two overtime slips did not have a supervisor's signature.

Further, 3 of the 25 (12%) overtime slips were not properly entered into County-Wide Timekeeping and Payroll/Personnel System (CWTAPPS). Specifically, we noted that:

- One of the 25 overtime earners was overpaid since the clerk entered the overtime hours as "paid" rather than "saved".
- One of the 25 overtime earners was overpaid 5 hours, since the employee's overtime hours on CWTAPPS exceeded the hours indicated on the overtime slips.
- One of the 25 overtime earners was underpaid 8 hours, since the employee's hours on the overtime slips exceeded the amount of hours indicated on CWTAPPS.

Recommendations 2 & 3 July 7, 1997 Final Report

The Department re-instruct staff regarding the requirement to comply with its work schedule rules.

The Department implement monitoring procedures to ensure the rules are compiled with.

Current Status of Recommendations 2 & 3: PARTIALLY IMPLEMENTED

The County and Sheriff have rules specifying the maximum number of hours that can be worked within certain time frames. The rules help ensure staff do not work excessive hours and are intended to help control the County's liability for stress and other compensation claims by employees, as well as claims from other parties for negligence and malpractice. In our prior review, we noted numerous instances where these limits were exceeded.

In response to our recommendation, instead of strengthening controls, the Sheriff made its work schedule rules more lenient. Specifically, the Department made the following changes in its work schedule rules:

- Increased the number of consecutive days that can be worked without an RDO from 10 to 12, and added the provision that a Division Chief may approve exceptions to the rule.
- Increased the number of hours an employee can work in excess of their regular work shift over two consecutive days, and added the provision that a Division Chief may approve exceptions to the rule.

The Department distributed its new rules to unit commanders who are responsible for informing staff. In our follow-up, we judgmentally selected 25 high overtime earners and tested for compliance with the new work schedule rules and noted the following:

- The County Code limits Physician overtime to 60% of their base monthly salary. We found that two of five Physician Specialists at the Medical Services Division violated this limit. They exceeded the limits by \$745 (11.7 hours) and \$1,239 (20.5 hours), respectively.
- One of 25 employees worked 24 straight hours, which exceeds the Sheriff's maximum by five hours.

Sheriff timekeeping staff are supposed to issue notices for work rule violations. However, we noted that some timekeepers have stopped issuing the notices since they believe the notices are not effective. Sheriff management indicated that the Department is currently working on replacing the notices with a weekly/monthly computer generated

report of violations. The report would be issued to the in-charge commander for discussion/follow-up.

Recommendation 12 July 7, 1997 Final Report

The Department implement an independent centralized payroll processing and monitoring function incorporating all timekeepers and which is supervised by staff with a payroll and compliance monitoring background.

Current Status: PARTIALLY IMPLEMENTED

Our prior recommendation was based on the need to have payroll staff report to someone who is knowledgeable in payroll/payroll processing.

Our follow-up review noted that approximately 50% of the timekeepers at the various units still report to the unit commander rather than Personnel Administration. This could make it difficult for timekeepers to enforce payroll rules and issue violations to unit staff.

Recommendation 4 July 7, 1997 Final Report

The Department re-evaluate the amount budgeted for overtime.

Current Status: PARTIALLY IMPLEMENTED

In our initial report, we noted that the Sheriff's overtime budget did not appear reasonable compared to actual expenditures.

The Sheriff indicated that beginning with the FY 1998-99 budget, overtime was estimated based upon prior year actual expenditures, adjusted by anticipated hiring to reduce overtime required to backfill vacant positions. However, as illustrated below, the Sheriff under-budgeted overtime in three of the last four years.

Fiscal Year	OVERTIME BUDGET	OVERTIME ACTUAL	OVERTIME OVER/<UNDER> BUDGET
2001-02 (projected)	\$ 80 million	\$ 95 million	\$ 15 million
2000-01	90 million	110 million	20 million
1999-2000	109 million	103 million	<6 million>
1998-99	52 million	96 million	44 million

For FY 2000-01, Sheriff management indicated that it under-budgeted overtime due to unanticipated promotions of approximately 200 Sergeants causing additional overtime to cover deputy shift vacancies. In addition, management indicated that they underestimated overtime expenditures for court appearances, tactical operations and investigations.

Recommendation 5 July 7, 1997 Final Report

The Department evaluate overtime usage and reduce overtime by hiring additional employees in those instances where it is cost effective.

Current Status: PARTIALLY IMPLEMENTED

Sheriff management indicated that the Department Executive Planning Council meets weekly and evaluates overtime usage often. They have determined that the Department can achieve overtime cost savings by hiring additional personnel to fill vacancies, primarily in the Custody and Court Services Divisions.

In an effort to fill these vacancies, the Sheriff implemented an aggressive recruiting campaign and hired approximately 1,350 recruits between July 1999 and March 2001. However, management indicated that, due to the limited number of qualified candidates, they are unable to fill all of the vacancies required to achieve the maximum cost savings. The Sheriff also indicated that some overtime is due to the inability to fill non-sworn positions because of the County hiring freeze.

Recommendations 7 & 8 July 7, 1997 Final Report

The Department conduct a review to identify all unjustified bonuses and eliminate them.

The Department annually review bonuses to ensure only eligible staff receive them.

Current Status of Recommendations 7 & 8: IMPLEMENTED

Sheriff management indicated that, in June 1998, the Personnel Administration Audit Training Unit began requiring all Divisions to provide annual justification of any "Special Bonuses". This resulted in the elimination of approximately 220 bonuses. In addition, the Sheriff requires quarterly justification by the Division Chiefs for all bonuses. We selected a sample of 25 employees receiving bonuses (ten employees receiving bilingual bonuses and five employees for three other bonuses) and noted that the Department had appropriate justification for the bonuses.

Recommendation 9 July 7, 1997 Final Report

The Department require employees and supervisors to sign time cards.

Current Status: PARTIALLY IMPLEMENTED

The County Fiscal Manual states that time records must include employee names, employee numbers, total hours worked each day, and daily variances (sick, vacation, etc.). In addition, employees must certify their time by completing and signing their time

records. Employee supervisors must also certify the accuracy of employee time by signing employee time records.

We discussed timekeeping and payroll procedures with Sheriff management and staff and reviewed related documentation. We noted that Department documents its employees' time keeping information on daily sign-in sheets or weekly time sheets. Generally, patrol deputies and jailers complete daily time sheets and all other employees complete weekly timesheets. For some units, timekeepers manually transfer timekeeping information onto hardcopy master timecards and then input it into CWTAPPS. This process is inefficient and increases the risk of error.

We reviewed the time sheets at five pay locations for a one-week period and noted the following:

- At three of five locations, some units include pre-printed start times, end times, and total hours for each employee on the weekly/daily time sheet.
- At one location, one supervisor did not always approve his/her subordinate's time sheets.
- At another location, one of three supervisors approved his/her own time sheet.

In addition, we observed several time sheets being processed by Headquarters payroll staff that were submitted anywhere from a few days to one and a half weeks past the CWTAPPS deadline for processing payroll. We also noted that some time sheets were submitted incomplete.

The Department's daily time sheets attempt to combine daily work schedules and time keeping information. The use of these sign-in sheets as the employee's time card is ineffective in ensuring that each employee certifies their time. As mentioned, we noted that start/end times and hours worked were often preprinted on the time sheets and that employees do not certify variance time on the daily time sheets.

The Department should implement a standard weekly or bi-monthly time sheet for all employees and require employees and supervisors to certify their accuracy by signing them. This would eliminate the need for timekeeping staff to manually transfer daily/weekly time sheets to a hard copy master timecard, help ensure the records are accurate, and help ensure that each employee and supervisor certifies the employee's time. Individual timecards could also improve the accuracy of the Sheriff's cost allocation by providing more specific information on time worked and job assignments.

Recommendation 10 July 7, 1997 Final Report

The Department strengthen controls to prevent overpayments related to workers' compensation.

Current Status: PARTIALLY IMPLEMENTED

Employees who have had industrial accidents are entitled to receive a portion of their salary for up to one year (salary continuation period). Employees who are unable to work after the first year (post salary continuation period) are entitled to receive Temporary Disability (TD) or Vocational Rehabilitation Maintenance Allowance (VRMA) benefits until they return to work or are deemed “permanent and stationary”. Both TD and VRMA benefits are paid separately by the County’s Third Party Administrator (TPA) from the County’s Workers’ Compensation Trust Fund, which is funded by charges to the Sheriff and other departments.

Sheriff management indicated that the Department held numerous meetings with its Payroll Unit, Health and Safety Unit, TPA, Department of Human Resources (DHR) and Auditor-Controller to improve the process and detect overpayments.

To test the effectiveness of the procedures, we judgmentally selected two employees receiving workers’ compensation benefits during the salary continuation period and did not note any exceptions. We also judgmentally selected ten employees receiving workers’ compensation benefits during the post salary continuation period and noted that four (40%) had overpayments totaling \$5,659. Specifically, we noted that:

- The TPA overpaid two employees a total of \$2,940 since they received two TD payments for the same day(s).
- The TPA overpaid one employee \$2,579 since he received both TD and VRMA benefits for the same time period.
- The TPA overpaid one employee \$140 since the Sheriff did not communicate changes in the employee’s TD start and end dates.

We noted that three of the four overpayments occurred as a result of an overlap in TD and VRMA benefits. The Sheriff should improve its monitoring of workers’ compensation benefit payments through regular payroll as well as the TPA to prevent and/or detect overpayments in a timely manner.

Recommendation 11 July 7, 1997 Final Report

The Department incorporate compliance with required payroll procedures into managers’ performance evaluations.

Current Status: PARTIALLY IMPLEMENTED

In our initial audit, we noted that some managers and staff were either unaware of payroll requirements and procedures or were choosing not to comply. Sheriff management indicated that, since our initial report, they had issued two departmental bulletins stating that compliance with payroll procedures should be included in

managers' performance evaluations. However, they could not provide copies of these bulletins. We did note that management recently posted a draft of these requirements in its new directive on performance evaluations and posted it on its intranet site. Management indicated they have also been working with the Department of Human Resources to revise the evaluation to include compliance with payroll requirements.

Since management is working to update its evaluation requirements, we consider this recommendation to be partially implemented.

Recommendation 14 July 7, 1997 Final Report

The Department require audited units to formally respond to audit reports indicating corrective actions being taken.

Current Status: IMPLEMENTED

In our initial audit report, we noted that the Sheriff established a Payroll Audit Unit to identify payroll weaknesses. However, audited units were not required to respond to the audit report indicating what actions they would take to correct the weaknesses noted.

Sheriff management indicated that beginning in August 1997, each unit commander is required to issue a formal response to all timekeeping audit reports within 30 days of the audit. The Audit-Training Unit must follow-up on the corrective action within 60 days.

We reviewed the four most recent reports issued by the Audit-Training Unit and noted that each audited unit responded timely. In addition, the Audit-Training unit appropriately followed-up to ensure that the audited units implemented the corrective actions.

Procurement**Recommendation 14 July 7, 1997 Final Report**

The Department require compliance with County purchasing guidelines and monitor to identify departures for corrective action.

Current Status: NOT IMPLEMENTED

In our original audit, we noted that the Sheriff did not always document justifications for sole source purchases or obtain required bids for non-agreement purchases. We also noted that the Sheriff made non-agreement purchases over \$5,000 without the required Internal Services Department (ISD) approval and fragmented orders to stay below that limit.

In our follow-up review, we reviewed a judgmental sample of purchases made by the Sheriff during FY 2000-01 and noted that these problems continue to exist. Specifically, we noted:

- The Sheriff made 105 non-agreement purchases that exceeded the Department's \$5,000 delegated authority, without ISD's approval.
- The Sheriff paid three vendors in excess of \$100,000 for services and/or services & supplies without entering into a Board approved contract as required by Government Code Section 25502.5. The total purchases from these vendors was approximately \$653,000.
- Eleven out of 30 payment vouchers over \$5,000 with multiple invoices under \$5,000 had either the same requisition date, order date, and/or invoice date, indicating that the orders may have been split to circumvent the ISD approval process. We noted that one payment voucher for roofing services had thirteen invoices. One of the 13 invoices was paid without proof that goods/services were received. For the twelve invoices with receiving documents, the amounts paid exceeded the amounts indicated on the receiving documents. The overpayments ranged from \$210 to \$1,201, totaling \$9,339.
- ISD guidelines require departments to monitor frequent/recurrent purchases and work with ISD to determine whether to establish agreements with these vendors. We noted that the Sheriff made a total of \$5.3 million in purchases from 124 vendors where purchases exceeded \$15,000, but did not monitor the purchases or work with ISD to evaluate whether agreements should be established.

We also generated a list of all Sheriff purchases made during December 2001 and tested 20 non-agreement POs. We noted the following violations of County internal controls and purchasing rules:

- In three instances, the same person who placed the order also received the goods, and in one instance an individual ordered, approved the purchase, and received the goods.
- In six instances, payment was made without adequate proof that the goods were received.
- The Sheriff did not provide written justification in their files for four purchases processed as sole source. For three of the purchases, we noted that the Department could have obtained bids for the items.
- For two purchases, the order was placed before approval from a budget representative.

- For two purchases, requisition forms were not in the payment files to document supervisory approval of the purchase.

In addition, we reviewed five agreement purchases and found that the Sheriff paid more than the agreement price for two of the purchases.

The Department indicated that they implemented a new expenditure process on April 1, 2002, giving unit managers more procedural and approval responsibilities. We sampled five purchases made under the new process and noted problems similar to the problems discussed above:

- For one purchase, the Department did not document who received the goods, therefore we could not verify whether there was adequate separation of duties.
- Three purchases were made as sole source without adequate written justification. For each of these purchases, we noted that the Department could have obtained bids.
- For one purchase, bids were solicited and documented on the quote sheet after the purchase was received.
- For one purchase, the order was placed with the vendor before obtaining approval from the budget representative.
- In one instance, the Department did not maintain a requisition with supporting documentation.

We obtained an understanding of the new process and noted that the new system now requires that the invoice be sent to the unit commander or designee to do a three-way match (purchase order, receiving document, and invoice) where the order was approved rather than by the Accounts Payable staff. Having the ability to order/approve purchases and authorize payment does not adequately separate the procurement duties. In addition, the violations of County purchasing requirements we identified makes it apparent that the Sheriff needs to continue to take corrective action to ensure compliance with County purchasing guidelines.

Recommendation 17 July 7, 1997 Final Report

The Department strengthen controls at the Central Jail pharmacy.

Current Status: PARTIALLY IMPLEMENTED

In our initial audit, we noted that the Central Jail pharmacy did not maintain perpetual inventory records and did not require supervisory approval for on-line drug orders.

Since our initial audit, the Sheriff has moved its pharmacy to the Twin Towers where it has strengthened its physical controls. In addition, management indicated that the Department has implemented a perpetual inventory system for narcotic prescription drugs. However, it does not have a perpetual inventory system for other drugs.

The Department currently orders drugs through its primary vendor's on-line system which does not allow for prior supervisory approval. Therefore, Sheriff pharmacists order drugs without prior supervisory approval. The Department indicated that in addition to the ordering system's limitation, it cannot require prior approval for on-line drug orders because this could result in delays which may jeopardize inmates' health. For the Department's primary drug vendor, we noted that the Department only obtains approvals for drug purchases after the orders are placed. Once an online order is placed, the vendor sends electronic confirmation to the Twin Towers Jail Pharmacy and approval is documented on that confirmation. The other vendors do not provide a confirmation notice and the Sheriff does not document the secondary approval.

Management indicated that they expect to have a new pharmacy inventory system within the next one to three years, and that the system will resolve the perpetual inventory tracking issues and provide for approval for online drug approvals.

Recommendation 18 July 7, 1997 Final Report

The Department require that all Aero Bureau purchases be pre-approved.

Current Status: PARTIALLY IMPLEMENTED

We reviewed ten agreement and ten non-agreement purchases made by the Aero Bureau between September 2001 and January 2002. We noted that, while the unit commander approved all 20 purchases, 7 of the 20 (35%) purchases were ordered before the unit commander approved the requisition.

Recommendation 23 July 7, 1997 Final Report

The Department develop written purchasing procedures, and train staff on purchasing requirements.

Current Status: PARTIALLY IMPLEMENTED

The Department has developed a procedure handbook and conducted procurement training prior to implementation of their new decentralized process. However, based on the procurement findings noted earlier, it appears that additional training is required.

KPMG Management Audit Report Issued May 23, 1997**Recommendation 1**

Reevaluate Commander positions and their functions within the organization.

Current Status: IMPLEMENTED

KPMG indicated that the Commander position may be underutilized. Sheriff management indicated that all Captains, Directors, Commanders, and Chiefs completed a questionnaire concerning the perceived and actual role of Commanders. The Executive Planning Council evaluated the results and determined that Commanders spend too much time providing staff support and not enough time inspecting their units. As a result, the Department moved the administrative staff for the three regional divisions to Sheriff's Headquarters freeing Commanders to spend more time "in the field" and manage their units.

Recommendation 2

Evaluate the opportunity to improve management-staff ratios in operating regions.

Current Status: NOT IMPLEMENTED

The Department indicated that, in July 1998, it created a workgroup to study management-staff ratios and the workgroup concluded that no major change in ratios was needed. However, the documentation provided by Department did not indicate that the evaluation was done or why the existing ratios were appropriate.

Recommendation 3

Develop a clear and consistent organizational hierarchy to improve accountability.

Current Status: IMPLEMENTED

KPMG indicated that the Sheriff's organizational structure was unclear and inconsistent resulting in a lack of accountability. Since this report was issued, the Department has undergone significant organization changes. For example, the Department created a Special Operations Division, which took over responsibility for Special Enforcement Bureau, Aero Bureau, Emergency Operations, Reserve Forces, and other non-patrol functions. This freed the Operating Regions and their commanders from these responsibilities allowing them more time to focus on patrol.

We reviewed the Sheriff's Department organizational chart and Divisional organization charts and noted that current organizational titles and structure appear clear and fairly consistent. In addition, the Sheriff created separate budget units in CAPS to provide better fiscal accountability.

Recommendation 5

Finalize and implement the Department's strategic plan.

Current Status: IMPLEMENTED

Sheriff management indicated that the Department hired a consultant to assist with the development of a strategic plan for 1996 -2000 and implemented its recommendations. In February 2001, the Sheriff established LASD2, a strategic planning team, which developed a "Long-Term Strategic Plan" on November 29, 2001. We also noted that this team meets monthly to discuss implementation and monitors progress on an ongoing basis. Based on our review of the plan and periodic follow-ups, this recommendation appears to be implemented.

Recommendation 8

Evaluate the outsourcing of medical services as part of a comprehensive health care service strategy.

Current Status: PARTIALLY IMPLEMENTED

KPMG indicated that outsourcing medical services could result in cost savings. According to Sheriff management, the Department is awaiting completion of a Board ordered internal audit, being completed by DHS, to determine the Sheriff Department's compliance with professional medical standards, and a CAO requested audit, being completed with the assistance of the Institute of Medical Quality, to evaluate the medical services operation before implementing this recommendation. Management also indicated that, based on their preliminary research, they believe full outsourcing would be undesirable. However, management will continue to evaluate the outsourcing of specific medical service operations after the audits are completed.

Recommendation 13

Improve contract prisoner billing practices.

Current Status: IMPLEMENTED

KPMG's Management Audit indicated that lack of training caused numerous errors in prisoner billings resulting in an inefficient process. KPMG's report also noted that the Department had eight prisoner maintenance staff and indicated that proper training could reduce prisoner billing staff by as much as 50%.

The audit specifically stated that the prisoner billing staff had to correct 80% of all city billings and 40% of all state billings prior to sending invoices. We reviewed current billings and noted that the adjustment rates were reduced to 58% and 7.5%, respectively. We also learned that the Sheriff is limited in its ability to prevent some of the adjustments that were necessary.

We observed the Department's training attendance records and class materials and noted that the Department provides training to personnel involved with processing inmate records. Since the Sheriff significantly reduced the number of corrections necessary in order to complete its billings and now has only four prisoner maintenance staff, it appears that the intent of the recommendation has been accomplished.

Recommendation 37

Pursue external laundry contracts.

Current Status: IMPLEMENTED

The Department originally concurred with the recommendation to pursue contracts to provide laundry to other entities. However, after analyzing factors such as the cost of additional staff and increased maintenance costs they determined that it would not be cost-effective to pursue external laundry contracts. They determined that the increased workload would also eliminate the flexibility of operating in the evening during the hot summer months, which is necessary because the laundry is not air-conditioned. They also believe that the added workload would damage the aged equipment and could hinder the Department's ability to meet its own laundry requirements.

The Sheriff's explanation appears reasonable. In addition, the costs KPMG used in its analysis did not include equipment depreciation cost, the cost of space required to store laundry, or the cost of establishing and monitoring contract agreements with potential customers. Therefore, the small profit identified by the KPMG auditors may never be realized if the Sheriff were to contract these services to other organizations and there appears to be little to no benefit in pursuing external contracts.

Recommendation 38

Complete and implement a comprehensive five-year civilianization plan.

Current Status: PARTIALLY IMPLEMENTED

The Department is taking significant steps toward civilianizing appropriate sworn positions. Specifically, the Department developed a Civilianization Plan that incorporates civilianization recommendations made by the State, The Grand Jury, and the KPMG Management Audit. Sheriff management indicated:

- The Department identified 228 positions to be civilianized. The Sheriff civilianized 102 of the positions in FY 1996-97 and 90 in FY 1997-98. In addition, the Department plans to civilianize 36 positions in FY 2002-03 through attrition.
- Personnel Administration's final report is scheduled to be completed by June 2002 and will include final recommendations on all positions to be civilianized. It will also provide justification why certain sworn positions identified in previous audits should not be civilianized.



LEROY D. BACA, SHERIFF

County of Los Angeles
Sheriff's Department Headquarters
4700 Ramona Boulevard
Monterey Park, California 91754-2169



June 24, 2002

J. Tyler McCauley, Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, California 90012

Dear Mr. McCauley:

RESPONSE TO SHERIFF FOLLOW-UP REVIEW

My department received a revised (updated) draft of your follow-up report on June 19, 2002, and discussed it with your staff on June 20, 2002. Based on our exit discussion on that date, my department is in general agreement with the findings. We are currently taking action to fully implement the 17 recommendations reported by you as partially implemented.

By July 31, 2002, we will provide you a detailed response to each of the recommendations in your report. Our response will include an action plan and time frames for implementing the remaining recommendations.

If you have any questions, please call Chief Marvin J. Dixon, at (323) 526-5488.

Sincerely,

LEROY D. BACA
SHERIFF

A Tradition of Service